


Mico Enterprises Limited
Annual Report 1976



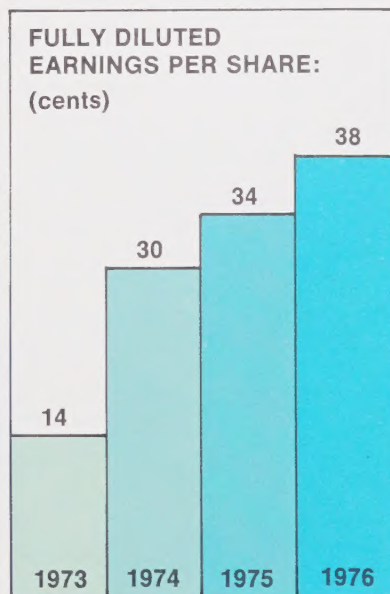
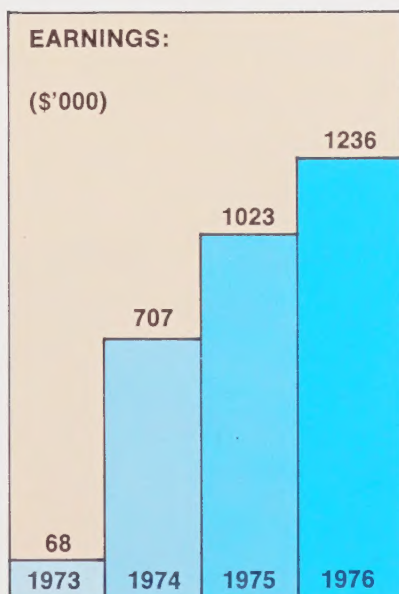


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Corporate objectives

Mico Enterprises Limited is a financial services company providing corporate financing and merchant banking facilities to its affiliates and client companies. The company's corporate objectives are:

- To acquire at conservative values, investment positions in well managed companies to ensure growth in earnings and quality of assets.
- To provide a diversified range of financial services to client companies and affiliates to enhance their development.
- To emphasize quality and good business standards in the conduct of the company's affairs.
- To generate a stimulating and personally satisfying working environment that attracts and retains able people.
- To operate in the best interests of the company's shareholders and earn for them a consistently favourable return on their investment.



Report of the directors

Your company's performance for the year ended April 30, 1976 confirmed our earlier optimism with substantial improvements being made in both earnings and unrealized asset appreciation. Earnings increased to \$1,236,000 from \$1,023,000 in the previous year and fully diluted earnings per share increased to 38 cents per share. Return on shareholders' equity, which over the long term is the appropriate test of the company's investment policies, reached 12 per cent for the year.

It is particularly gratifying that the results and progress made in recent years were achieved during a period of difficult financial and business conditions. In the absence of any unforeseen events, it is anticipated that the program for growth of earnings and underlying asset values will be successfully continued during the current year.

Of significant importance to the company's future growth was the further diversification of the company's financing activities achieved during the year by the formation of Mico Securities Ltd. in partnership with a Canadian Chartered Bank. Mico Securities Ltd., with a capital base of \$10 million and lines of credit of

\$25 million, will originate medium term equity investments with above average yields for its own account and for others.

Also during the year, the company consummated its first equipment lease financing and at year end held approximately \$5.5 million of equipment which had been acquired and leased to others on a full payout basis. Subsequent to the year end, but prior to the proposed change in the legislation governing the taxation of equipment leases, the portfolio of equipment under lease to others was increased to \$13 million. This portfolio provides a profitable and useful base for corporate planning purposes, however further expansion of the lease portfolio will depend on the effect the proposed legislative changes have on the market for these services.

In the merchant banking area, the company completed its previously announced acquisition of a 46 per cent equity interest in Bellevue Photo Labs Inc., a holding company owning 52 per cent of the outstanding shares of Astral Bellevue Pathé Limited. In addition, further funds were committed to S. B. McLaughlin & Company Limited increasing the company's interest in this holding company to 40 per cent. These funds will be used to enable the holding company to increase and hold its investment in S. B. McLaughlin Associates Limited above 50 per cent. Subsequent to April 30, 1976 agreement was reached to sell the company's investment in Westguard Holdings Limited at a book profit of \$1.6 million to be realized and recognized over the next two years.

While on balance, more favourable factors exist today than a year ago, we view with considerable concern the arguments being advanced in certain quarters for increasing intervention by governments in the corporate sector. The continued escalation of such encroachments would ultimately be harmful to the growth of the company's activities as the areas of investment likely to be selected in the future can only achieve maximum potential under conditions where the corporate sector is able to operate with limited restraint.

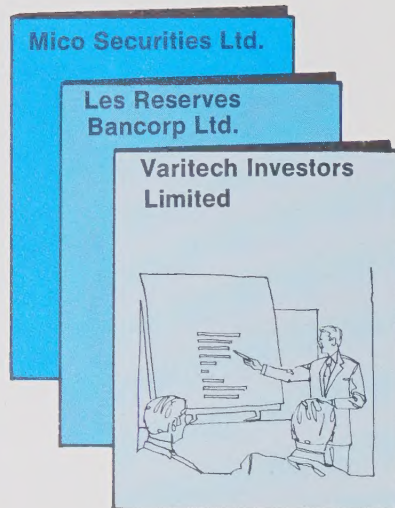
Your company's success continues to depend to a large measure upon the mutual trust and relationships that exist between the company, its client financial institutions and investment partners. Your directors would like to express their appreciation to these groups and individuals and the company's personnel for their continuing efforts during the year.



President

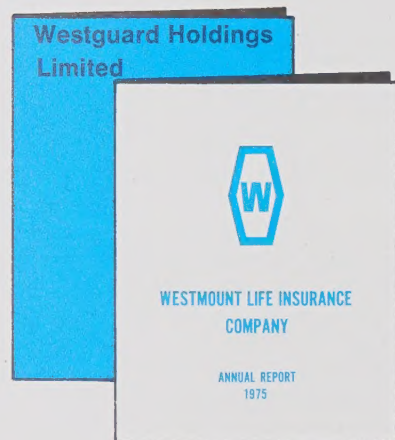
July 21, 1976

Corporate structure



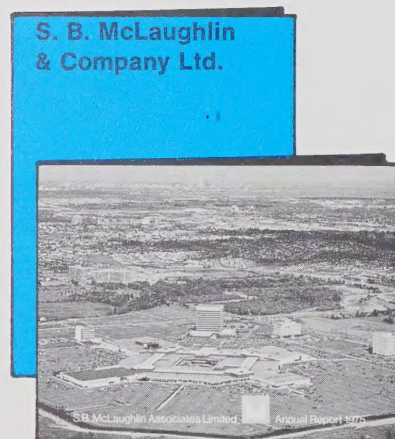
Corporate finance

Mico provides a diversified range of financial services to client companies and affiliates including secured lending, equipment leasing, medium term equity investment and management and other financial services. These services are provided through Mico Securities Ltd., Les Reserves Bancorp Ltd., both wholly owned subsidiaries and Varitech Investors Limited, a 48% owned affiliate. Lines of credit of approximately \$50 million have been established to support these activities of which \$14 million were used at April 30, 1976.



Life insurance

Mico owns 50% of Westguard Holdings Limited which in turn owns 54% of Westmount Life Insurance Company, a publicly owned life insurance company. Westmount Life has assets of \$48 million and gross premium income of \$10 million and on a statutory accounting basis recorded an operating loss of \$65,000 for the year ended December 31, 1975. An agreement has recently been reached in principle to sell this investment.



Real estate development

Mico owns 40% of S. B. McLaughlin & Company Ltd. which in turn has a 49% interest in S. B. McLaughlin Associates Limited, a publicly owned real estate development company. S. B. McLaughlin Associates Ltd. has assets in excess of \$250 million and recorded earnings of \$4 million for the year ended December 31, 1975.

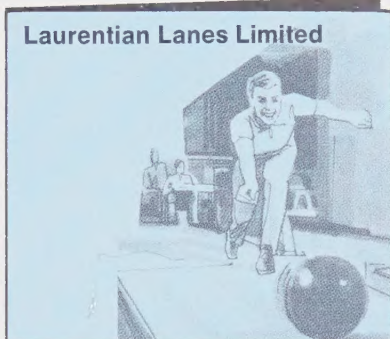
Bellevue Photo Labs Inc.



Photographic services

Mico owns 46% of Bellevue Photo Labs Inc. which in turn owns 52% of Astral Bellevue Pathé Limited, a publicly owned photographic services company. Astral Bellevue Pathé Limited has assets of \$13 million and recorded earnings of \$850,000 for its year ended February 28, 1976.

Laurentian Lanes Limited

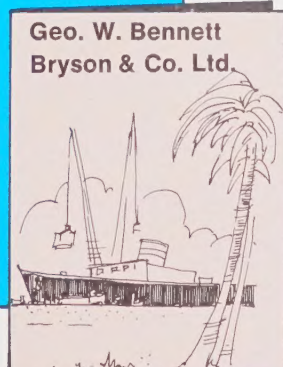


Recreational activities

Mico owns 83% of Laurentian Lanes Limited which operates a chain of recreational centres providing automatic vending and bowling facilities in major cities of Canada. Laurentian Lanes Limited has assets of \$2 million and had an operating cash flow of \$400,000 for the year ended April 30, 1976.

Marigot Nassau Ltd.

Geo. W. Bennett Bryson & Co. Ltd.



Caribbean trading

Mico owns 100% of Marigot Nassau Ltd., a holding and mortgage lending company, which in turn owns 100% of Geo. W. Bennett Bryson & Co. Ltd., a trading and real estate company. The operating results of these companies are recorded only to the extent their earnings are paid out and received in Canada.

Northern Reserve Corporation Ltd.



Land development

Mico participates through Northern Reserve Corporation Ltd., a wholly owned subsidiary, in a land development joint-venture. It is the intention to refrain from making further land development investments as long as Mico maintains its interest in S. B. McLaughlin & Company Ltd.

Business operations

Mico invests through debt and equity in established companies with sound underlying assets and operating cash flows, and currently participates through its affiliates in the life insurance, real estate development, photographic services and entertainment industries.

Mico's investment policy is long range. Its objective is reasonable income and future growth of both capital and income without exposure to excessive risk. Investments are held as long as these prospects remain or until the management and co-investors are desirous and able to increase their investment, with Mico where appropriate, providing the financing to make this possible.

Mico does not require or desire ownership or management control of the companies in which it invests, although it does seek an effective working relationship with the controlling shareholder groups. Mico views itself as a partner with management and generally fulfills the role of financier, assisting in the raising of capital and the determination of corporate policy.

Where appropriate, downside risk is protected through joint-venturing with risk sharing partners. Where an investment fails to develop according to plan, Mico generally has the right and possesses the management and financial capabilities to enable it to effectively intercede.

It is recognized that the carrying and early development costs associated with the acquisition of most equity investments are not always offset by immediate returns from these investments. As a result, the timing of acquisitions of equity investments is related to the growth of the company's earnings base and is not at the expense of reported earnings.

Mico has established lines of credit with certain chartered banks and institutional investors to support the company's corporate lending activities. These lending activities take the form of secured loans, equipment leasing, income debenture financing or rate escalated preferred share purchases. These activities are of particular importance to affiliates and client companies during periods of difficult monetary conditions when these services are not always available from other financial institutions.

As a further service to client companies, Mico will initiate or arrange a corporate financing for placement with a chartered bank or an institutional investor, and if requested by the investor, will assume responsibility for the ongoing monitoring of the client company's affairs.

Consolidated financial statements

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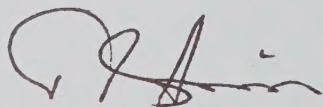
Mico Enterprises Limited

and subsidiary companies

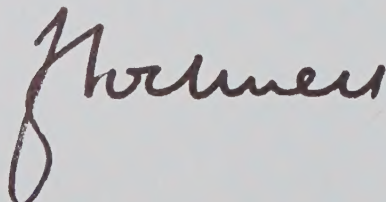
Consolidated Balance Sheet as at April 30

ASSETS	1976	1975
Marketable securities (note 2)	\$ 3,858,000	\$ 1,071,000
Loans receivable (note 3)	15,410,000	9,467,000
Corporate investments (note 1)	9,318,000	7,035,000
Development land (note 4)	9,915,000	9,367,000
Property and equipment (note 5)	2,246,000	2,202,000
	<u>\$40,747,000</u>	<u>\$29,142,000</u>
 LIABILITIES		
Bank indebtedness	\$ 4,002,000	\$ 3,487,000
Accounts payable	607,000	509,000
Loans payable (note 6)	24,692,000	14,798,000
Deferred income taxes	363,000	152,000
Minority interest	33,000	30,000
	<u>29,697,000</u>	<u>18,976,000</u>
 SHAREHOLDERS' EQUITY		
Capital stock (note 7)	8,963,000	8,963,000
Retained earnings	2,087,000	1,203,000
	<u>11,050,000</u>	<u>10,166,000</u>
	<u>\$40,747,000</u>	<u>\$29,142,000</u>

On behalf of the board



Director



Director

Mico Enterprises Limited

and subsidiary companies

Consolidated Statement of Earnings For the year ended April 30

INCOME	1976	1975
Operating revenue	\$ 3,344,000	\$ 2,986,000
Interest and investment income	1,554,000	1,176,000
Income on corporate investments	<u>778,000</u>	<u>32,000</u>
	<u>5,676,000</u>	<u>4,194,000</u>
EXPENSES		
Operating	2,651,000	2,488,000
Interest (note 4)	1,349,000	446,000
Depreciation	229,000	206,000
Income taxes (note 8)	<u>211,000</u>	<u>31,000</u>
	<u>4,440,000</u>	<u>3,171,000</u>
NET EARNINGS FOR THE YEAR	<u><u>\$ 1,236,000</u></u>	<u><u>\$ 1,023,000</u></u>
EARNINGS PER SHARE (note 9)		
Basic	54 cents	49 cents
Fully diluted	38 cents	34 cents

Consolidated Statement of Retained Earnings For the year ended April 30

RETAINED EARNINGS	1976	1975
Beginning of the year	\$ 1,203,000	\$ 513,000
NET EARNINGS		
For the year	<u>1,236,000</u>	<u>1,023,000</u>
	<u>2,439,000</u>	<u>1,536,000</u>
DIVIDENDS PAID		
Preference shares	262,000	262,000
Common shares	<u>90,000</u>	<u>71,000</u>
RETAINED EARNINGS		
End of the year	<u><u>\$ 2,087,000</u></u>	<u><u>\$ 1,203,000</u></u>

Mico Enterprises Limited

and subsidiary companies

**Consolidated
Statement of Changes
in Financial Position
For the year
ended April 30**

SOURCE OF FUNDS

1976

1975

Net earnings for the year	\$ 1,236,000	\$ 1,023,000
Items not requiring nor providing cash	217,000	247,000
Funds provided by operations	1,453,000	1,270,000
Increase in accounts and loans payable	9,992,000	3,807,000
Capital stock issued	—	1,107,000
Sale of property and equipment	—	793,000
Sale of development land	273,000	275,000
Other items	—	162,000
Increase in funds — bank indebtedness	515,000	3,491,000
	<u>\$12,233,000</u>	<u>\$10,905,000</u>

APPLICATION OF FUNDS

Loans and marketable securities acquired — net	\$ 8,730,000	\$ 935,000
Corporate investments acquired	2,283,000	6,440,000
Additions to development land	594,000	733,000
Additions to property and equipment	274,000	2,464,000
Dividends paid	352,000	333,000
	<u>\$12,233,000</u>	<u>\$10,905,000</u>

Mico Enterprises Limited

and subsidiary companies

Notes to Consolidated Financial Statements April 30, 1976

1. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The financial statements include the accounts of the company and all its subsidiaries which conduct their business operations in Canada. Corporate investments, which are accounted for under the equity method, include investments amounting to \$529,000 (1975 — \$511,000) in wholly owned subsidiary companies which conduct their business operations in the Caribbean sterling area.

Equipment Leases: Lease transactions are recorded in accordance with the financing method of accounting with net income reported at a constant ratio to the net receivable balances outstanding.

Development Land: Interest and other costs directly related to land under development are capitalized.

Property and Equipment: Property and equipment are stated at cost less accumulated depreciation with depreciation computed on the straight line basis over 15 years.

Income Taxes: The company follows the tax allocation method of providing for income taxes. Under this method income taxes currently payable may differ from the total income tax provision for the year as a result of timing differences between recognition of expenditures for accounting purposes and tax purposes. Such differences mainly arise from claiming capital cost allowances for tax purposes, which are higher than depreciation charged for determining reported income. The tax effect of these timing differences is reflected in the accounts as deferred income taxes.

2. MARKETABLE SECURITIES

Marketable securities are stated at cost and have a market value of \$3,860,000 (1975 — \$1,289,000).

3. LOANS RECEIVABLE

Included under loans receivable are equipment lease contracts of \$5,362,000. The principal portion of loans due in one year amounts to \$9,516,000 (1975 — \$8,156,000).

4. DEVELOPMENT LAND

Development land includes an undivided 50% interest of \$9,805,000 in a land development project. The company is contingently liable for its associate's share of obligations in this project. The associate's share of the assets is available and is adequate to meet such obligations.

Interest and other carrying charges and directly related development costs included in development land amount to \$1,756,000 (1975 — \$1,163,000).

5. PROPERTY AND EQUIPMENT

Property and equipment consists of equipment and leasehold improvements and is net of accumulated depreciation amounting to \$1,677,000 (1975 — \$1,448,000).

6. LOANS PAYABLE	1976	1975
Loan secured by development land bearing interest at 8% and due December 27, 1979	\$ 8,000,000	\$ 7,407,000
Unsecured loans from affiliated companies bearing interest at an average rate of 9% — \$4,000,000 due December 31, 1980 and the balance due one year after demand	10,935,000	6,570,000
Loan secured by equipment lease contracts bearing interest at 12% and due over seven years	4,947,000	—
Loans secured by property and equipment bearing interest at an average rate of 7% and due over six years.	810,000	821,000
	<u>\$24,692,000</u>	<u>\$14,798,000</u>

7. CAPITAL STOCK

	Authorized	Issued	Paid-up
Class A 7% cumulative voting preference shares of \$2.50 par value, redeemable at par and convertible to December 31, 1980 into an equal number of common shares	1,600,000	1,500,000	\$3,750,000
Common shares without par value	4,000,000	1,789,916	5,213,000
Total paid-up capital stock			<u>\$8,963,000</u>

Mico Enterprises Limited

and subsidiary companies

8. INCOME TAXES

Net earnings have been reduced for tax purposes on account of dividend income, income on corporate investments, and the application of losses available. Losses available to reduce future income for tax purposes aggregate approximately \$235,000 (1975 — \$420,000).

9. EARNINGS PER SHARE

Diluted earnings per share have been calculated on the basis that all share purchase warrants and convertible privileges had been exercised at the beginning of the year and the funds made available being used to liquidate indebtedness carrying interest at 7%.

10. COMMITMENTS

As at April 30, 1976, the company was contractually obligated to enter into equipment lease contracts amounting to \$7,479,000. Financing has been arranged to meet these obligations, which were consummated subsequent to the company's year end.

11. ANTI-INFLATION LEGISLATION

The company has elected to comply with the Federal Government's Anti-Inflation Legislation which became effective October 14, 1975 and intends to conduct its affairs in accordance with the guidelines issued under this legislation.

Auditors' report

The Shareholders,
Mico Enterprises Limited.

We have examined the consolidated balance sheet of Mico Enterprises Limited and its subsidiaries as at April 30, 1976 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. For Mico Enterprises Limited and those subsidiaries of which we are the auditors, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. With respect to those subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to accept for purposes of consolidation the reports of the other auditors.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at April 30, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Touche Ross & Co.
Chartered Accountants

Montreal, Que.
July 5, 1976

Group of companies

Subsidiaries:

MICO SECURITIES LTD.
Medium term corporate equity
financing.

LES RESERVES BANCORP LTD.
Corporate lending and merchant
banking.

NORTHERN RESERVE
CORPORATION LTD.
Land development.

LAURENTIAN LANES LTD.
Recreational activities.

MARIGOT NASSAU LTD.
Holding and mortgage lending.

GEO. W. BENNETT BRYSON
& CO. LTD.
Caribbean trading and real estate
holdings.

Affiliates:

WESTGUARD HOLDINGS
LIMITED
Holding company for Westmount
Life Insurance Company*

S. B. MCLAUGHLIN &
COMPANY LIMITED
Holding company for S. B.
McLaughlin Associates Limited*

BELLEVUE PHOTO LABS INC.
Holding company for Astral
Bellevue Pathé Limited*

VARITECH INVESTORS LIMITED
Management and financial
advisory services

**Copies of the annual reports of
these publicly traded companies
are available on request.*

Directors and officers

Directors

J. L. COCKWELL
Treasurer, Mico Enterprises
Limited

D. T. DINGLE
Partner, Weldon, Courtois,
Clarkson, Parsons & Tetrault

R. K. FRASER
President, Ronyx Corporation
Limited

R. D. GARON
President, Aronelle Textiles Ltd.

D. W. KERR
Secretary, Carena-Bancorp Inc.

J. D. H. MACKENZIE
President, Elgistan Management
Limited

T. R. PRICE
President, Mico Enterprises
Limited

Officers

T. R. PRICE
President

M. A. CORNELISSEN
Secretary

J. L. COCKWELL
Treasurer

A. E. RUBIN
Controller

Head Office

Suite 475
2055 Peel Street, Montreal

Transfer Agent

Montreal Trust Company
777 Dorchester Blvd. West,
Montreal

Record of progress

	1976	1975	1974	1973
Total Assets	\$40,747,000	\$29,142,000	\$19,871,000	\$10,948,000
Gross Income	\$ 5,676,000	\$ 4,194,000	\$ 1,739,000	\$ 1,355,000
Earnings	\$ 1,236,000	\$ 1,023,000	\$ 707,000	\$ 68,000
Earnings Per Share				
Basic	54 cents	49 cents	61 cents	18 cents
Fully Diluted	38 cents	34 cents	30 cents	14 cents

Money and banking



The first paper currency in North America was issued in 1685 by the French colonial authorities. Faced with a shortage of coins with which to pay his troops, De Meulles, the Intendant of New France, introduced as a temporary expedient an issue of paper currency. In subsequent years further issues were made but the practice was abandoned in 1717 due to a failure of the government to always redeem the notes in full. However in 1729 a severe shortage of coins again forced the resumption of the issue of paper currency. This money also eventually fell into disrepute because of over-issue and difficulties with redemption.

The above illustrates the eventual fate of all currencies not supported by real values and provides a time honoured lesson of the result of increasing government spending in relation to the private sector and the funding of these expenditure deficits through the printing of money.

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